The Mortgage Insurance Company of Canada

MICC

1968

ANNUAL REPORT

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Head Office • 401 Bay Street, Toronto, Ont.

The Mortgage Insurance Company of Canada

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Aluminum Company of Canada, Ltd.
Montreal, Quebec

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Senior Vice-President
Greenshields Incorporated
Montreal, Quebec

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The Bank of Nova Scotia
Toronto, Ontario

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President and General Manager
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Toronto, Ontario

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Greenshields Incorporated
Toronto, Ontario

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F. WILLIAM NICKS

President and General Manager
GARDNER ENGLISH

Vice-President
C. W. JAMESON

Vice-President
REGINALD T. RYAN

Secretary
DAVID C. TOMS

Assistant Vice-President
JAMES McAVOY

PRESIDENT'S REPORT

The year 1968 was one of progress and prosperity for Canada and Canadians. While troublesome problems existed in the international area and currency disturbances and government deficits affected financial markets at home, important achievements were recorded for the country at large.

The Mortgage Insurance Company of Canada shared in, and contributed to, these achievements. I am pleased to report that your company showed increases in new high ratio business written, insurance in force, earned premium, total assets and net earnings.

Operations

Mortgage insurance commitments for high ratio loans, the company's principal class of business, increased about 10% to $50,200,000. Insurance of conventional loans, chiefly of interest to pension funds, showed a severe decline, primarily the result of a change in investment policy by several of our customers. The marketing problems referred to above resulted in a decline in new premiums written. Gross premiums in new insurance amounted to $802,000 compared with $1,076,000 the previous year.

The annual premium income of the company is shown in the accounts as "earned premium". All of our insurance is written on a single premium basis for a term of 15 years. A portion of all premiums written is taken into income each year as earned premium under formula prescribed by the Federal Department of Insurance. Since the company draws each year on past as well as current written premium the earned premium figure shows a substantial increase to $465,555 compared with $391,985 in 1967. The balance of premiums not taken into income is shown on the balance sheet as Reserve for Unearned Premiums.

A further reserve is maintained designated as Policy Reserve. Credits are made annually to this reserve equal to one half earned premium after second policy year on all business in force. Credits to policy reserve during the year amounted to $122,686 and balance of the reserve at year end was $224,822.

Net earnings for the year after expenses, claims, transfers to Policy Reserve and income taxes amounted to $275,972 compared with $239,278 for 1967.

Investments

As noted in previous reports, the investment portfolio of the company consists mainly of bonds. The nature of the company's liabilities indicates the need for high grade securities with ready marketability. About 33% of the investment portfolio consists of Government of Canada or government guaranteed obligations. Of this segment approximately half is represented by short maturities. The investment portfolio of the company at December 31, 1968 is tabulated as follows:

Government of Canada and Government Guaranteed Bonds	$2,571,375
Provincial and Municipal Bonds	3,206,919
Corporate Bonds	832,169
Preferred Stocks	980,201
Common Stocks	174,182
Total	$7,764,846

Under recent conditions of price weakness in the bond market, cash flow invested in fixed income securities has been diverted to short maturities. During the year increased emphasis was placed on common stocks and our holdings, while modest, represent an increase of $143,000. Relating our portfolio to the relatively long term nature of our liabilities, the market deficit position indicated in the balance sheet is not of major consequence in current operations.

Rate of return on total portfolio was 5.86%.

At the close of the year, 34 financial institutions were listed in our roster of Approved Lenders. During 1968 one institution was added to the group, and two of our trust company lenders were merged. It is the policy of the company to encourage participation by lending institutions active in the mortgage field and we are gratified at the gradual increase in participating companies.

A recent development in mortgage lending in Canada has been the emergence of companies engaged in the origination and servicing of mortgages for investors who do not engage in mortgage lending directly. This function — usually referred to as "mortgage banking" — is increasing in scope and importance. During 1968 the facilities of the MICC high ratio mortgage plan were extended to cover this type of institution and four firms have been designated as "Approved Correspondents". They are eligible to originate mortgages for insurance

by the company and to service the accounts for the ultimate investor. Management expects that this new class of institution will make a growing contribution to housing finance in Canada and to our business.

During the latter part of the year, the scope of the high ratio programme was broadened to include rental projects up to a maximum loan of $750,000. This move recognizes the more important role now being played by rental housing in providing accommodation for Canadians. Consideration will be given to extending the initial loan limitation on the basis of experience with the programme.

Underwriting and Claims

Quality of new business accepted for insurance has been at a high level since commencement of operations. Claims experience has been most favourable as shown by claims costs of $8,771 compared to $12,768 in 1967. It is recognized that the strong real estate markets of the past three years, coupled with high employment and general prosperity, contribute to a low ratio of mortgage defaults. Since the policies of mortgage insurance issued by MICC run for a term of 15 years, we can normally expect higher losses in some years ahead. In any case, our satisfactory experience attests to the quality of appraisal and underwriting of risks both by participating lenders and the company's staff. Loans in default during the year averaged less than ½ of 1% of accounts in force, and as at December 31, 1968, ratio stood at 0.24%.

Average loan amount committed for insurance on single family dwellings was $23,378 on new construction and $17,694 on existing properties.

Ratio of mortgage payment to borrowers' income, a common yardstick used in measuring the ability of the home owner to pay his mortgage payment, averaged 21.9%. This compares with a recognized maximum ratio of 27%.

Capital Structure

During the year under review additional capital was provided by the issuance of 2,900 shares of the company's stock. Paid in capital now stands at $2,788,500. After addition of 1968 earnings and adjustment of the securities account to market value, total shareholders' equity amounts to $3,924,582 compared with $3,452,200 at the previous year end.

The Mortgage Market and Housing

Canada achieved a record in new housing starts in 1968 — 197,000 units which surpassed the previous record year by some 21%. With production of new housing at this level we are very close to the requirements suggested by the Economic Council of Canada for the end of this decade. This achievement was made possible, in financial terms, by greater freedom of interest rates, the increased participation in mortgage lending by the chartered banks and pension funds. The trust and loan companies also increased their lending volume and the life insurance companies showed an appetite for large apartment loans, although they have indicated less interest in mortgages on single family units.

It is important to note that the record housing performance was achieved in a climate of interest rates which was the highest in many decades. Also, housing was able to compete for funds in the capital market more successfully than was possible in recent years of lower money costs. In the face of much argument to the contrary, it seems evident that relatively expensive mortgage rates, per se, are not a deterrent to providing and financing housing in the market place.

While Canada had the best year in new housing in its history, many problems are still to be solved by both the government and private sectors. Many of these difficulties such as land costs, mortgage money supply, uniform building codes, to name a few, are the subject of continuous public comment. It is still a misfortune for thousands of families that they cannot buy houses or rent apartments in price ranges that realistically fit their budget. The complex factors causing this imbalance are the subject of study by a federal "Task Force on Housing" as this is written. Hopefully, the report of this commission will provide long sought solutions for some of Canada's housing problems.

In assessing the prospects for new residential construction for 1969, the most difficult aspect to predict is the effect of the price level of new houses and apartment rents. There are indications that the rapidly narrowing market for housing accommodation at present and rising prices may not be able to absorb new production of which the building industry is capable. For the first time in several years, apartment vacancy is rising and some material resistance by tenants to present rent levels is apparent. Since rental units represented 56% of Canada's new housing in 1968, and a large part of this addition to inventory will be on the rental market in 1969, it seems likely that competition for tenants will become

significant as the year progresses. Such a movement might have some virtues in arresting a rapid rise in rents, and would have a secondary effect on land prices for apartment developments.

Investment in mortgage loans in 1968 was substantial by all of the traditional lending institutions. The chartered banks provided a material increase in the supply of mortgage money by committing for nearly $500,000,000 in their first full year of mortgage business following legislative changes in 1967. A growing interest by pension funds resulted in significantly greater mortgage commitments by this group. For the year ahead it would seem that the momentum acquired in 1968 should be carried forward to a marked degree. It should be observed that recent federal tax changes affecting life insurance companies may diminish their interest in mortgage lending to some extent. Also, the chartered banks will probably not show the same percentage of dollar increases in the coming year that were a feature of last year's participation. Some institutional lenders are concerned as to the attitude of the borrower when he is required to pay an interest cost at present day levels which are now above 9%.

In summary, Canada should enjoy a buoyant year in the construction of new housing of all kinds. Some of the constraining influences suggested above may be a deterrent to surpassing the record level of starts achieved in 1968.

It is to be hoped that co-operation between the various levels of government will relieve some of the irksome problems having to do with taxation and land development. Since inter-governmental co-operation has been urged on these matters for some time, it is difficult to be sanguine about revolutionary changes in a single year. However, there are some encouraging signs of progress and it is to be hoped that these and further accommodations between governments will be fruitful.

It has been almost customary for senior officials of financial and other business institutions to admonish our governments on the matter of deficit spending. I concur in the view that unbalanced government budgets at all levels have been a main contributor to the inflationary process. There are some signs of encouragement as we commence the year 1969 that governmental financial establishments are heeding these admonitions. To the extent that better balance is achieved, we can expect some relief from the problems caused by excessively high interest rates.

This report makes note of the problems of housing and mortgage finance caused by high interest rates, uneven supply of mortgage money, rising costs of land and other factors. These problems will continue but I am confident that solutions will be found that will permit the orderly production of new dwellings that will be required for Canada in the 1970's. Your company expects to share in the growth potential inherent in the country's need for housing.

Gardner English

January, 1969.

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The Mortgage Insurance Company of Canada

BALANCE SHEET AS AT DECEMBER 31, 1968

ASSETS

	1968	1967
	$	$
CURRENT ASSETS		
Cash	200,049	147,924
Premiums receivable	30,000	7,550
Interest accrued and sundry receivables	80,922	76,463
	310,971	231,937
SPECIAL REFUNDABLE TAX	5,341	6,520
INVESTMENTS		
Bonds, debentures and stock, at market (cost 1968 — $7,764,846; 1967 — $6,858,256)	7,035,000	6,278,150
Mortgages (note 2)	189,171	121,070
	7,224,171	6,399,220
	7,540,483	6,637,677

Signed on behalf of the Board,

F. W. NICKS, Director.

GARDNER ENGLISH, Director.

LIABILITIES

	1968	1967
CURRENT LIABILITIES	$	$
Provision for claims	2,500	13,500
Accounts payable and accrued liabilities	22,086	19,477
Premium taxes	5,327	10,785
Income taxes	75,643	91,008
	105,556	134,770
RESERVES		
Reserve for unearned premiums	3,285,523	2,948,571
Additional policy reserve	224,822	102,136
	3,510,345	3,050,707

SHAREHOLDERS' EQUITY

	1968	1967
CAPITAL STOCK (note 1)		
Authorized —		
50,000 shares of the par value of $100 each		
Issued and partly paid —		
42,900 shares	4,290,000	4,000,000
Uncalled subscriptions	1,501,500	1,400,000
Paid-up capital	2,788,500	2,600,000
SURPLUS	1,136,082	852,200
	3,924,582	3,452,200
	7,540,483	6,637,677

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The Mortgage Insurance Company of Canada

STATEMENT OF SURPLUS

For the Year Ended December 31, 1968

	1968 $	1967 $
EARNED SURPLUS		
Balance — beginning of year	471,892	225,999
Net earnings for the year	275,972	239,278
Profit on sale of securities	150	6,615
Balance — end of year	748,014	471,892
CONTRIBUTED SURPLUS		
Balance — beginning of year	380,308	732,224
Premium received on shares issued (note 1)	157,500	—
	537,808	732,224
Write-down of investments to quoted market value	149,740	351,916
Balance — end of year	388,068	380,308
SURPLUS — END OF YEAR	1,136,082	852,200

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of The Mortgage Insurance Company of Canada as at December 31, 1968 and the statements of earnings and surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1968 and results of its operations for the year then ended, in accordance with accounting practices appropriate to the insurance laws of Canada applied on a basis consistent with that of the preceding year.

Toronto, January 21, 1969

McDONALD, CURRIE & CO.,
Chartered Accountants.

The Mortgage Insurance Company of Canada

STATEMENT OF EARNINGS

For the Year Ended December 31, 1968

	1968 $	1967 $
INCOME		
Premiums earned	465,555	391,985
Less transfer to Additional Policy Reserve	122,686	83,152
	342,869	308,833
Application fees	23,548	61,414
Investment income after investment expenses	433,606	333,006
Total Income	800,023	703,253
EXPENSES		
Claims incurred	8,771	12,768
Insurance underwriting and policy issuance expenses	122,542	105,441
Premium taxes	16,045	21,861
Other operating expenses	154,193	141,405
Total Expenses	301,551	281,475
	498,472	421,778
PROVISION FOR INCOME TAXES	222,500	182,500
NET EARNINGS FOR THE YEAR	275,972	239,278

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 1968

1. CAPITAL STOCK

   The authorized capital may be increased to 150,000 shares of the par value of $100 each. During the year the company issued 2,900 shares for an aggregate consideration of $447,500 of which $188,500 was paid as to 65% of par value and $157,500 as a contribution to surplus. There are options outstanding in respect of 2,100 shares exercisable on or before February 28, 1970 at $125 per share.

2. MORTGAGES

   Mortgage assets arise from resale of real estate acquired through payment of claims.

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APPROVED LENDERS

The Bank of Nova Scotia
The Canada Life Assurance Company
The Canada Trust Company — Huron & Erie Mortgage Corporation
Canadian Premier Life Insurance Company
The Central Trust Company of Canada
Confederation Life Association
Crown Life Insurance Company
The Dominion Life Assurance Company
The Eastern Canada Savings and Loan Company
Equitable Life Insurance Company of Canada
The Excelsior Life Insurance Company
Fidelity Life Assurance Company
The Imperial Life Assurance Company of Canada
Industrial Life Insurance Company
Investors Syndicate Limited
The Laurentian Mutual Assurance Company
London Life Insurance Company
Metropolitan Life Insurance Company
Montreal Trust Company
The Mutual Life Assurance Company of Canada
National Trust Company Limited
North American Life Assurance Company
The Northern Life Assurance Company of Canada
Northland Trust Company
Norwich Union Life Assurance Society
Nova Scotia Savings & Loan Company
Rowcliffe Investments Limited
Standard Life Assurance Company
Sun Life Assurance Company of Canada
The Toronto-Dominion Bank
The Waterloo Trust and Savings Company
The Western Savings and Loan Association
Yorkshire Trust Company

APPROVED CORRESPONDENTS

Marcil Mortgage Corporation
Morbank Investments Ontario Limited
Morguard Investments Quebec Limited
Pemberton, Holmes Limited

The Mortgage Insurance Company of Canada

INSURED MORTGAGE PLAN

The Mortgage Insurance Company of Canada was incorporated by Act of Parliament in December, 1963. In co-operation with a group of Approved Lenders and Approved Correspondents (see list on opposite page), MICC makes available to the public a mortgage financing plan, for residential properties, which provides for first mortgage loans above 75% of value.

Loans up to 87½% of value are available for purchase of a new or existing house, for refinancing of an existing mortgage, to consolidate debts, or to obtain cash or for the purpose of financing property renovations. The maximum loan for a house, duplex or triplex is $50,000.

The program also covers rental projects, (apartment buildings, town housing, etc.), providing for a loan up to 83⅓% of value, with a maximum loan of $750,000.

The mortgage interest rate for an MICC loan is ¼% above the prime lender's rate for a 75% conventional mortgage and the borrower pays an insurance premium of 2% of the amount of the loan.

Under the MICC plan, a first mortgage is made jointly by the institutional lender and Central Covenants Limited, a separate mortgage investment company. The borrower deals only with the institutional lender, the role of MICC being to provide mortgage insurance coverage, offering substantial protection to the lender in the event of loss on foreclosure of the mortgage.

This service is offered to the public through more than 1,600 offices of our Approved Lenders and Approved Correspondents in some 570 communities across Canada. Loans are available in all ten provinces of the country.

The Mortgage Insurance Company of Canada has a secondary programme of insuring 75% conventional mortgages, which are of particular interest to pension funds. The insurance premium is 1¼% for loans up to $50,000 and 1¾% for rental loans from $50,000 to $750,000.

CENTRAL COVENANTS LIMITED

First mortgage loans insured under the MICC high ratio plan are joint loans made by the Approved Lender and Central Covenants Limited. Normally, the Approved Lender is limited by statute to mortgages not exceeding 75% of value. On MICC loans, the senior portion of the loan (not exceeding 75%) represents the investment of the Approved Lender and the junior portion is held by Central Covenants Limited. The policy of mortgage insurance issued by The Mortgage Insurance Company of Canada, in effect, guarantees the junior holder against loss through foreclosure.

The Mortgage Insurance Company of Canada

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